Testimony of

Rod K. Brenneman
President and CEO
Seaboard Foods

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To Review The State of U.S. Pork Industry

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Mr. Chairman, Ranking Member, and Members of the Subcommittee, thank you for the opportunity to appear before you today. My name is Rod Brenneman and I am the President and CEO of Seaboard Foods. Seaboard Foods would like to express our appreciation to the Subcommittee for holding this hearing on the state of the U.S. pork industry.

Seaboard Foods is a vertically integrated pork producer and processor, producing and selling fresh, frozen and processed pork products to further processors, foodservice operators, grocery stores, retail outlets and other distributors in the United States. Internationally, Seaboard sells to those same types of customers in Japan, China, Mexico, Russia, Korea and many other foreign markets. In 2010, the U.S. pork industry exported over 20 percent of the total pork produced and Seaboard's amounts were in excess of this overall average at approximately 27 percent.

The pork processing business is highly competitive and capital intensive. In 1995 Seaboard Foods invested over $150 million to open a state-of-the-art packing and processing facility in Guymon, OK. To operate that plant at full capacity requires approximately $75 million in working capital.

Our processing facility in Oklahoma employs approximately 2,300 people, and we also market all of the product for a similar sized facility that is located in Missouri. These two facilities have a combined processing capacity of over 10 million head per year – representing about 9 percent of the U.S. slaughter volume.

Seaboard Foods' live production facilities are located in Oklahoma, Kansas, Texas and Colorado, and are supported by our six centrally located feed mills. These facilities consist of genetic and commercial breeding, farrowing, nursery and finishing buildings. Seaboard Foods raises approximately 4 million hogs each year, making Seaboard the second largest hog producer in the United States. Our facilities consume more than 40 million bushels of corn and milo and over 350,000 tons of soybean meal per year.

Mr. Chairman, Seaboard Foods has experienced both the up and down cycles and the corresponding challenging economic conditions facing the pork sector first-hand at every level -- hog production, processing, marketing, and international trade. Many issues threaten the economic viability of the pork sector, among them escalating input costs for feed and energy, artificial and unwarranted barriers that hinder international trade, and a rule proposed by the Grain Inspection, Packers and Stockyards Administration that would reverse more than 30 years of progress and innovation driven by consumer demand.

Input Costs

The U.S. hog and pork production industry in 2011 is faced with rising input costs, with corn prices at levels that are more than double the price that they were in April 2010, and higher fuel expenses at the pump as you are fully aware.

Corn is estimated to account for upwards of 70 percent of feed grains in pork production and soybean meal accounts for another 20 percent of the feed. In mid-2008, corn prices were nearly 150 percent above 2007 prices. In addition, soybean meal prices reached record levels during that same time period. Some said 2008 was an anomaly. Unfortunately, we find ourselves once again dealing with historic corn prices that have already surpassed 2008 levels. Corn prices remained above $7.00 for the entire month of April and there are no signs of relief. We estimate our corn feed costs this year will be at least $85 million dollars above what we paid for corn in 2010.

Last year's corn crop was considered within the top five most productive years, however our supplies are at the lowest levels in 15 years and as I mentioned before corn prices are once again at historical high levels. Although there are several reasons for the increase in feed prices, paramount among them is the determined government policies to promote the use of corn for ethanol. This same phenomena is taking place around the world and is causing concerns to governments in both the developed and developing world and also the World Bank. This effort, while seeking a desirable goal which is to lower the U.S. reliance on fossil fuels, has had an unfortunate unintended consequence to the U.S. meat industry and ultimately to consumers. In fact, there are many people around the world that are being put in a position of not being able to afford to feed themselves and their families as a result of these high prices. These policies need to be reevaluated and in my opinion, completely changed. When roughly 40 percent of the corn crop is used to produce fuel (ethanol) instead of animal feed or food production, it is difficult for anyone to argue that the policies have had no impact on food prices, and there are many studies that support this view.

Trade Overview

The United States is the world's largest pork exporter, and the third largest pork producer, trailing China and the European Union. Export markets have become increasingly important to the viability and economic health of U.S. pork industry as per capita U.S. red meat consumption has declined in recent years. Foreign demand for U.S. pork is growing because economic growth and rising middle class disposable incomes, especially in north Asian markets, are expanding at the same time the

U.S. market faces rising food prices amid the recent recession. In this difficult economic environment, U.S. pork exports are increasingly important to maintaining the economic viability of our industry.

In 2010, U.S. pork exports exceeded 1.92 million metric tons, worth $4.78 billion, only two percent below the 2008 record of 2.05 million metric tons and more than $4.88 billion. Last year, the U.S. set new export records to Mexico, Australia, Central America, the Philippines, Taiwan, Dominican Republic and New Zealand.

The positive trend for U.S. pork exports continued in February 2011, with an increasingly large portion of total U.S. production going to international customers while returning more revenue to America's red meat industry. For the month of February, 27 percent of U.S. pork production was sold outside of the United States with the incremental value of exports reaching $51.48 per head – versus 25.2 percent and $43.81 last year. Total pork exports jumped 15 percent in value and 8 percent in volume versus February 2010 totals. Mexico, Japan, the Hong Kong/China region, South Korea and Canada remain the top five export markets.

The growth leader for U.S. pork exports in February was South Korea, which purchased a record 19,532 metric tons valued at $49.2 million as that nation continues to deal with product shortages driven by a major outbreak of foot and mouth disease (FMD).

Trade Barriers

The U.S. pork industry can be competitive in world markets but our producers and processors can only do so with a level playing field and the elimination of unjustified barriers to trade. We must resist protectionist sentiment in managing our own trade rules and encourage our trading partners to act in kind. We do best when markets are allowed to function without market distorting subsidies, high tariffs and quotas, and non-scientific barriers that inhibit the free flow of products.

Despite the rebound in U.S. pork exports in 2010 which helped the U.S. meat industry weather the economic downturn at home, significant tariff and non-tariff barriers exist to expansion of U.S. pork exports in key foreign growth markets. For example, some major trading partners threaten to reject USDA export certificates, and demand certification of prescriptive and unscientific standards such as zero tolerance on the FDA approved antibiotic tetracycline. Additionally, these countries often delist U.S. meat plants because of minor clerical errors in export documentation or for alleged residue violations. U.S. pork sales to Russia have plummeted from 203,000 MT in 2008 to 83,000 MT in 2010, largely due to Russia's unfair sanitary and phytosanitary restrictions.

Many promising long-term markets, such as mainland China, Taiwan and the European Union continue to restrict U.S. pork shipments based on unjustified, non-scientific import regulations which ban pork meat containing residues of ractopamine hydrochloride (a safe feed additive to increase efficiency of pork production approved for use in the United States and 26 other countries) and zero tolerance for pathogens common on raw products. As of June 1, 2011, China will implement a new restrictive labeling law which will significantly increase production costs and in some cases prevent some producers from supplying this growing market. USDA is actively negotiating with Chinese officials to guarantee product traceability and minimize the additional labeling requirements.

There are numerous smaller markets which continue to maintain bans on U.S. pork from several U.S. states because of the A/H1N1 virus despite the clear scientific evidence to indicate that the virus cannot be conveyed to humans through the consumption of U.S. pork. Many other markets require procedures and testing to minimize risks associated with trichinae. In the United States there is a negligible risk of trichinae as a result of high biosecurity protocols and modern production practices.

In addition to addressing trade barriers, we must take advantage of all prospective trade opportunities. The three pending free trade agreements (FTAs) with Korea, Colombia and Panama represent significant, long term growth markets for the U.S. meat industry. Passage and implementation of the three FTAs would represent an additional $2.3 billion in meat and poultry exports and the potential creation of 29,524 new jobs, according to a white paper prepared by the American Meat Institute (AMI). To benefit from this potential, the Administration and the Congress must act now to pass and implement these agreements. Our competitors are actively working in these markets—if we don't act fast to set the stage for long term export growth and job creation, other countries will.

GIPSA Proposed Rule

The GIPSA proposed rule is the most troubling and problematic government action I have witnessed during my career in the pork industry. Simply put, the rule, if implemented as proposed, would unravel the substantial progress and innovation achieved by hog producers and the packing industry during the last several decades.

Much of the progress in the pork sector during this time has come about because of close working relationships that have evolved between hog producers and the packers. At Seaboard, although we are largely vertically integrated, we still have close relationships with producers. Those relationships, partnerships really, are the force that drives the innovation that enables the industry to deliver to consumers the products they demand. It is both ironic and disconcerting that GIPSA would propose a rule that threatens the use of marketing agreements, tools that RTI International in a study done for GIPSA and completed in 2007 identified as providing substantial benefits for producers, packers and consumers. The GIPSA rule, however, threatens the use of those agreements because of the legal liability it could impose not only on packers but also swine contractors who use such agreements.

The GIPSA rule is also troubling for another, more basic reason. I'm not a lawyer. I'm a businessman who runs a pork company. But I am a citizen and basic civics teaches us that there are three branches of government for a reason. I think it is troubling when the executive branch blatantly ignores the judiciary, the branch of government that interprets the laws. And, it is also troubling when the executive branch ignores the intent of Congress, indeed, this committee – when it enacts laws. Simply put, the disdain found in the GIPSA rule for the courts and the Congress is just not good government.

Conclusion

Many factors influence the pork sector and I am confident that we can address these problems and make the industry stronger than ever. If I may, I have three recommendations for the Subcommittee:

- First, encourage the Secretary of Agriculture to provide an opportunity for review and comment on the economic impact analysis currently being done by the Chief Economist regarding the GIPSA rule;

- Second, encourage and work with the U.S. Trade Representative to finalize and pass the three pending free trade agreements with Korea, Colombia and Panama and work to open export markets to U.S. pork, particularly China, which continue to impose non-science-based restrictions on U.S. pork; and

- Finally, look critically at eliminating the current federal support for corn ethanol to ensure the pork industry and consumers are not negatively affected to the benefit of a mature corn ethanol industry.

Thank you for the opportunity to appear before the Subcommittee. I am happy to answer any questions you may have.